

Sunrise Bank Limited

Ratings

Facilities	Amount (Rs. Million)	Rating ¹	Rating Action
Subordinate Debenture (10.25% Debenture 2083)	3,000.00	CARE-NP A- [Single A Minus]	Reaffirmed
Subordinate Debenture (10% Debenture 2080)	1,000.00	CARE-NP A- [Single A Minus]	Reaffirmed
Issuer Rating	NA	CARE-NP A- (Is) [Single A Minus (Issuer Rating)]	Reaffirmed

Details of instruments/facilities in Annexure-1

CRNL has reaffirmed 'CARE-NP A-' to the Subordinate Debenture "10.25% Sunrise Debenture 2083" and "10% Sunrise Debenture 2080" of Sunrise Bank Limited.

Also, CRNL has reaffirmed the Issuer Rating of 'CARE-NP A- (Is)' to Sunrise Bank Limited. The instrument with this rating is considered to offer adequate degree of safety regarding timely servicing of financial obligations, in Nepal. Such instrument carries low credit risk'.

Detailed Rationale & Key Rating Drivers

The ratings assigned to SBL continues to derive strength from the long track record of operations with experienced promoters and management team, having diversified geographical coverage through branches, improvement in asset quality and moderate capitalization of the bank. The ratings also factor in growth in loans & advances and deposits; comfortable proportion of low cost of deposits (Current Accounts Savings Account (CASA)); diversified loan portfolio & moderate deposit concentration with increasing advances concentration although moderate along with comfortable liquidity profile.

The rating is constrained by decline in total income during FY21 (FY refers to 12 months ending on Mid-July), intense competition and exposure to regulatory risk related to industry.

Ability of the bank to continue its growth momentum while improving its asset quality and improving its capital adequacy and ability to manage the impact of any regulatory changes by Nepal Rastra Bank (NRB) would be the key rating sensitivities

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Long track record of operation, geographical coverage with experienced promoters and management Team

Established in the year 2007, SBL has over a decade of operational history and an established market presence in Nepal. SBL has diversified presence in Nepal through its 139 branches, 12 extension counter, 157 ATM Terminals and 92 branchless banking units as on Mid- October 2021. The branches are spread over all the 7 Provinces of Nepal.

The bank's profile derives strength from its experienced and diverse promoters who have diversified experience in sectors like banking, insurance, manufacturing, import and export, trading etc. SBL is a professionally managed bank under the overall guidance of the bank's Board of Directors (BoD) which includes eminent businessmen and industrialists with wide experience in the financial services. Mr. Moti Lal Dugar is the Chairman of the bank, who has been engaged in service and manufacturing industry, import export, insurance, hydro power, banking and business sector for more than 5 decades.

The senior management team is highly experienced in their respective field of operations and is headed by Mr. Suman Sharma (Chief Executive Officer; CEO) who has more than 24 years of experience in banking industry.

Moderate capital adequacy level

The bank reported Capital Adequacy Ratio (CAR) of 13.41% as on July 15, 2021 (as on July 15, 2020: 14.38%) as against minimum regulatory requirement of overall CAR of 11%. Further, the bank reported the Tier I CAR of 9.66% against minimum

¹Complete definition of the ratings assigned are available at www.careratingsnepal.com and other CARE publications

requirement of 7% as on July 15, 2021 (as on July 15, 2020: 10.21%) Though the overall CAR of the company declined due to the increase in risk weighted loans and advances, the same is above the minimum regulatory requirement. CET-I and overall CAR stood at 9.02% and 12.65% respectively during Q1FY22.

Consistent growth in Loans & Advances and Deposits

Over the last 3 to 4 years the bank has shown healthy growth in the Loans & advances and Deposits. Total loans and advances stood at Rs. 103,375 Mn in FY21 recording a three-year CAGR of 19.52% and reported growth of 23.31% over FY20. Further, total loans and advances of SBL increased by 35.07% to Rs. 118,653 Mn during Q1FY22 over Q1FY21 (14.78% over FY21). Bank's share of total industry loans and advances stood at 2.78% as on Mid July, 2021 (FY20: 2.88%), which increased to 2.92% as on Mid October, 2021.

Total deposits of SBL have reached to Rs. 110,181 Mn in FY21 recording a three-year CAGR of 16.61% and reported growth of 16.33% over FY20. Furthermore, deposits of SBL increased to Rs. 132,094 Mn during Q1FY22 reporting a growth of 34.66 % over Q1FY21 (19.89% over FY21). Bank's share of total industry deposits stood at 2.62% as on Mid July, 2021 (FY20:2.71%), which increased to 3.09% as on Mid October, 2021. The increase in loan and advances and deposits was on the back of revival of the economic activities which was affected due to the COVID-19. The credit to Deposit (CD) ratio 89.83% as on mid-October 2021.

Improvement in asset quality

SBL reported Gross Non-Performing Loan (GNPL) ratio of 1.86% during FY20 which improved to 1.38% during FY21. Despite increase in advances portfolio, GNPL has shown an improvement and stood at Rs. 1,426 Mn at the end of FY21 reporting a decrease from Rs. 1,558 Mn at the end of FY20. GNPL further declined to Rs 1,347 Mn at the end of Q1FY22.

SBL had high COVID-19 induced delays amounting to Rs. 4,340 Mn which accounted for 5.18 % of total advances as on July 15, 2020 which declined substantially and improved to Rs. 1,560 Mn as on July 15, 2021 which accounted for 1.51% of total advances.

Diversified loan portfolio with regulatory compliance

The bank's advances are diversified across segments. As on July 15, 2021, Retail banking comprised 30.56% (34.63% as on July 15, 2020), corporate segment comprised of 34.78% (33.67% as on July 15, 2020) of the advances, Small & medium enterprises (SME) comprised 26.37% (25.55% as on July 15, 2020) and agricultural and deprived sector comprise of remaining 8.28% (6.15% as on July 15, 2020). Diversification in the loan portfolio de risks the concentration of banks' exposure in particular industry.

Moderate CASA ratio and liquidity profile

CASA deposits mix has been increasing in the past with increase in overall deposit size. CASA mix increased from 38.08% at the end of FY20 to 43.97% as on mid-July FY21. However, the same was moderated to 36.26% at the end of Mid- October 2021 on account of moderation of the deposits in the overall industry. Industry average CASA ratio for FY20, FY21 and Q1FY22 was 42.33%, 45.23% and 42.34%. CASA deposits in absolute amount increased by 34.32% to Rs. 48,451 Mn during FY21 as compared to Rs. 36,071 Mn during FY20. The satisfactory share of CASA deposits has led to lower cost of deposit which stood at 4.78% as on July 15, 2021.

The liquidity profile of the bank was moderate with positive cumulative mismatches in buckets of all tenors as per ALM statement dated Mid October 2021 due to well matched tenure of assets and liabilities. However, the assets and liabilities of the bank show negative net financial assets from 91 to 180 days, 271 to 365 days. Further, SBL has maintained SLR of 22.78% as on October 17, 2021 vis-à-vis regulatory requirement of 10%; CRR of 3.25% as on October 17, 2021 vis-à-vis regulatory requirement of 3%; Net Liquidity of 24.14% as on October 17, 2021 vis-à-vis regulatory requirement of 20%. Maintained SLR, CRR and Net Liquidity are within the norms of NRB.

Moderate deposits concentration and increasing advances concentration

Deposit concentration by top 20 institutional depositor accounts has been moderate and on declining trend with 24.78%,18.42% and 18.50% of total bank deposits as on July 15, 2020, July 15, 2021 and October 17, 2021 respectively. Similarly, concentration on advances as top 20 individual borrowers as % of total loan portfolio accounted for 24.30% as on July 15, 2020 which decreased

to 14.09% as on July 15, 2021 and stood at 15.83% as on October 17, 2021. Top 20 group borrowers accounted for 26.85% as on July 16, 2020 which decreased to 16.28% as on July 15, 2021 and stood at 18.67% as on October 17, 2021. Moderate concentration towards advances and deposits normally reduces re-pricing risks at times of interest rate volatility.

Diversified Investment Portfolio

SBL has investments of Rs. 26,172 Mn (P.Y: Rs. 14,909 Mn) at the end of FY21. The investment portfolio of the bank has increased by 75.54% in FY21 over FY20 mainly due to additional investments made in treasury bills/ bonds of Nepal Government and Nepal Rastra Bank. SBL earned Rs. 604 Mn as interest income from bonds/ treasury bills (P.Y: Rs. 525 Mn), Rs. 67 Mn (P.Y: Rs. 120 Mn) received as interest on placements with bank & financial institutions and Rs. 57 Mn (P.Y: Rs. 34 Mn) received as dividend income from shares of corporate sectors during FY21.

Key Rating Weaknesses

Moderation in financial risk profile during FY21 and H1FY22

During FY21, bank's total income decreased by 6.78% to Rs. 10,541 Mn due to decline in interest income by ~10.58%. Interest income declined on account of competitive interest rate. Nepal Rastra Bank (NRB) restricted the interest spread upto 4.4% from earlier 5% thereby impacting the interest income of banks. The yield on advances declined by 233 bps to 8.86% and the cost of deposits decreased by 193 bps to 4.78%. Also, the interest expenses of the bank decreased by 11.77% to Rs. 5,437 Mn on the back of decrease in deposit rate during FY21. Net interest income decreased by 8.68% to Rs. 3,524 Mn during FY21. Net Interest Margin (NIM) of the bank declined from 3.66% in FY20 to 2.77% in FY21 due to lower growth in Net Interest Income as compared to Average Total Assets.

Accordingly, SBL's PAT increased by 6.41% in FY21 to Rs. 1,447 Mn as against Rs. 1,359 Mn earned in FY20. Return on Total Assets (RoTA) of the bank remained at 1.14% during FY21 reporting a decline from 1.29% during FY20.

During Q1FY22, bank's total income increased by 10.93 % to Rs. 3,056 Mn in comparison to Rs. 2,755 Mn during Q1FY21 on back of increase in interest income by 10.32% which increased from Rs. 2,411 Mn in Q1FY21 to Rs. 2,660 Mn in Q1FY22. Further, interest expenses also increased by 19.29% during Q1FY22 on the back of increase in overall deposits from customer and increase in deposit rate. Due to increase in interest expenses as compared to interest income, net interest income of the bank declined by 3.25% to Rs. 929 Mn during Q1FY22 vis-à-vis Rs. 960 Mn in Q1FY21. However, with increase in non-operating income during Q1FY22, PAT of the Bank increased by 12.47% to Rs. 431Mn during Q1FY22 (Rs. 383 Mn during Q1FY21). Non-operating income increased to Rs. 193 Mn during Q1FY22 as compared to Rs. 12 Mn in Q1FY21 on account of increase in dividend income.

Intense Competition

Currently there are 27 Commercial Banks, including three major state-owned banks, operating with total 4,822 branches all over Nepal (based on Monthly statistics published by NRB for Mid-October 2021). Sunrise Bank has 139 branches along with head office as on Mid-Oct 2021.

Industry (Class 'A' Commercial Banks) has achieved total interest income of Rs. 326,110 Mn during FY21 with Rs. 131,700 Mn net interest income; SBL's share on interest income is 2.75% (Rs. 8,961 Mn) and 2.68% share on net interest income (Rs. 3,524 Mn) for the same period. The market share of SBL in terms of interest income has slightly improved to 2.86% in Q1FY22. However, the net interest income has reduced to 2.56% of the market share during Q1FY22. Due to emergent competition, it is challenging to recruit and retain skilled manpower. Unhealthy competition in the interest rates is the prominent challenge. New technology-based services and its growing demand among customers is fresh challenges for Nepalese banking sector.

Exposure to regulatory risk related to industry

The banking industry in Nepal is exposed to changes in the various regulatory measures issued by NRB from time to time. After the extensive capital increment pressure from Rs. 2 Bn to Rs. 8 Bn for Class "A" Commercial Banks, NRB has now decreased weighted average interest rate spread to 4.4% from earlier 5% via Monetary Policy issued by NRB, for the FY21. Due to increased capital, banks are facing investable amount deficit to grant new loans and advances. And decreased weighted average interest

rate spread together with growing competition will be responsible for decreasing net interest margin thereby impacting profitability.

About the Company

Sunrise Bank Limited (SBL) is "A" Class Licensed Institutions from Nepal Rastra Bank (NRB). It was incorporated on October 12, 2007 as 23rd Commercial Bank of Nepal. The bank is promoted by reputed entrepreneurs who are industrialist, businessman, engineers, and prominent person of Nepal. As on July 16, 2019, 51% of the total shares of SBL were held by the promoter whereas remaining 49% is held by the general public.

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